



# Standards on Auditing & Documentation vis-à-vis Tax Audit

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**Care, Pair, and Share**

**KNOWLEDGE THAT MATTERS. EXPERIENCE THAT COUNTS.**

# INTRODUCTION

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- Audit required vide section 44AB - Presumptive
- Audit of Companies vs. Other entities
- Limit One Crore / 25 Lac
- Appointment and Communication (NOC?)
- Relying on another Statutory Auditor
- Format of the Financial statements
  - Recommended by ICAI
- Whether previous year's figures to be given?

# Applicability of Accounting

## Corporate entities

–Mandatory as per Section 133 of the Companies Act 2013,

–Rule 7 of the Companies (Accounts) Rules 2014.

–Accounting Standards Rules 2006

–Concessions to SMCs from some AS

# Applicability of Accounting Standards

- Non-corporate entities

- Compliance not given by any statute (except for AS 1 & AS 2 issued under section 145 of Income Tax Act)...Now **ICDS**

- As per ICAI guidelines – mandatory for auditors while reporting – exemptions for SMEs from some AS

# Applicability of Accounting Standards

- In practice, important AS like AS 1, AS 2, AS 4, AS 5, AS 6, AS 7, AS 9, AS 10, AS 13, AS 16, AS 18, etc.
- ICDS 1 to 10
- “True and Fair” view
- Provision for Taxation / AS-22

# Important Standards on Auditing

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- SA 200 (Revised) - “Overall Objectives of the Independent Auditor and the Conduct of an Audit in Accordance with Standards on Auditing” – **FS free from material misstatement**
- **SA 210 (Revised) - “Agreeing the Terms of Audit Engagements”**
- SA 220 (Revised) - “Quality Control for an Audit of Financial Statements” – **Remain alert / Independence / Reviews / SQC 1**
- **SA 230 (Revised) - “Audit Documentation”** - Timely Preparation of Audit Documentation
- SA 240 (Revised) - The Auditor’s Responsibilities Relating to

# Important Standards on Auditing

- SA 250 (Revised) - “Consideration of Laws and Regulations in an Audit of Financial Statements”
  - SA 260 (Revised) - “Communication with Those Charged with Governance”
  - SA 265 - “Communicating Deficiencies in **Internal Control** to Those Charged With Governance”
  - SA 299 (AAS 12), “Responsibility of Joint Auditors”
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# Important Standards on Auditing

- SA 300 (Revised) - “Planning an Audit of Financial Statements”
- SA 315 - “Identifying and Assessing the Risks of Material Misstatement through understanding the entity and its Environment”
- SA 320 (Revised) - “Materiality in Planning and Performing an Audit”



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▪ SA 402 (Revised): AUDIT CONSIDERATIONS RELATING TO AN ENTITY USING A SERVICE ORGANISATION

➤ Deals with the user auditor's responsibility to obtain sufficient appropriate audit evidence when a user entity uses the services of one or more service organizations - **outsource aspects of their business**

▪ SA 450: EVALUATION OF MISSTATEMENTS IDENTIFIED DURING THE AUDIT

➤ Deals with the auditor's responsibility to evaluate the effect of identified misstatements on the audit and of uncorrected misstatements, if any, on the financial statements.

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# Important Standards on Auditing

- SA 500 (Revised) - “Audit Evidence”
  - SA 501 - “Audit Evidence—Specific Considerations for Selected Items”
  - SA 505 (Revised) - “External Confirmations”
  - SA 510 (Revised) - “Initial Audit Engagements – Opening Balances”
  - SA 520 (Revised) - “Analytical Procedures”
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# Important Standards on Auditing

- SA 530 (Revised) - “Audit Sampling”
  - SA 540 (Revised) - “Auditing Accounting Estimates, Including Fair Value Accounting Estimates,”
  - SA 550 (Revised) - “Related Parties”
  - SA 560 (Revised) - “Subsequent Events”
  - SA 570 (Revised) - “Going Concern”
  - SA 580 (Revised) - “Written Representations”
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# Important Standards on Auditing

- SA 600 (AAS 10) - “Using the Work of Another Auditor”
- SA 610 (Revised) - “Using The Work of Internal Auditors”
- SA 620 (Revised) - “Using the Work of an Auditor’s Expert”

# Important Standards on Auditing

- 700-799 Audit Conclusions and Reporting
- Applicability deferred to April 1, 2014.
- Unmodified (SA 700)
- Emphasis of Matter paragraph (SA 706)
- Other Matters paragraph (SA 706)
- Modifications to the Opinion (705) – Adverse / Qualified / Disclaimer

### Qualification Type

### Observations/Qualifications

Select ▼

Delete

Select

Proper books of account, to enable reporting in form 3CD, have not been maintained by the assessee.

All the information and explanations which to the best of my/our knowledge and belief were necessary for the purpose of my/our audit has not been provided by the assessee.

Documents necessary to verify the reportable transaction were not made available.

Proper stock records are not maintained by the assessee.

Valuation of closing stock is not possible.

Yield/percentage of wastage is not ascertainable.

Records necessary to verify personal nature of expenses not maintained by the assessee.

TDS returns could not be verified with the books of account.

Records produced for verification of payments through account payee cheque were not sufficient

Amount of expense related to exempt income u/s 14A of Income-tax Act, 1961 could not be ascertained

Creditors under Micro, Small and Medium Enterprises Development Act, 2006 are not ascertainable

Prior period expenses are not ascertainable from books of account.

Fair market value of shares u/s56 (2) (viiia)/(viiib) is not ascertainable

Reports of audits carried by Excise/Service tax Department were not made available

GP ratio is not ascertainable from the financial statements prepared by the assessee.

Information regarding demand raised or refund issued during the previous year under any tax laws other than Income-tax Act, 1961 and Wealth tax Act, 1957 was not made available.

Others

Illus. 1 Unmodified Opinion on Standalone Financial Statements, Emphasis of Matter Paragraphs, Reporting on clause 143(3)(i) regarding internal financial controls is required (*Click here to see the format*)

*Will be added to Appendix to SA 700*

Illus. 2 Unmodified Opinion on Standalone Financial Statements, Emphasis of Matter Paragraphs, Reporting on clause 143(3)(i) regarding internal financial controls is not required (*Click here to see the format*)

Illus. 3 Qualified Opinion on Standalone Financial Statements, Qualification is quantifiable, Reporting on clause 143(3)(i) regarding internal financial controls is not required (*Click here to see the format*)

*Will be added to Appendix to SA 705*

Illus. 4 Qualified Opinion on Standalone Financial Statements, Qualification is not quantifiable, Reporting on clause 143(3)(i) regarding internal financial controls is not required (*Click here to see the format*)

Illus. 5 Adverse Opinion on Standalone Financial Statements, Reporting on clause 143(3)(i) regarding internal financial controls is not required (*Click here to see the format*)

Illus. 6 Disclaimer of Opinion on Standalone Financial Statements, Reporting on clause 143(3)(i) regarding internal financial controls is not required (*Click here to see the format*)


# Management's Responsibility

- The Company's Board of Directors is responsible for the matters stated in Section 134 (5) of the Companies Act, 2013 ("the Act") with respect to the preparation of these standalone financial statements that give a true and fair view of the financial position, financial performance and cash flows of the Company in accordance with the accounting principles generally accepted in India, including the Accounting Standards specified under Section 133 of the Act, read with Rule 7 of the Companies (Accounts) Rules, 2014. This responsibility also includes maintenance of adequate accounting records in accordance with the provisions of the Act for safeguarding the assets of the Company and for preventing and detecting frauds and other irregularities; selection and application of appropriate accounting policies; making judgments and estimates that are reasonable and prudent; and design, implementation and maintenance of adequate internal financial controls, that were operating effectively for ensuring the accuracy and completeness of the accounting records, relevant to the preparation and presentation of the financial statements that give a true and fair view and are free from material misstatement, whether due to fraud or error.



# Auditors' Responsibility

- Our responsibility is to express an opinion on these financial statements based on our audit. We have taken into account the provisions of the Act, the accounting and auditing standards and matters which are required to be included in the audit report under the provisions of the Act and the Rules made there under. We conducted our audit in accordance with the Standards on Auditing specified under Section 143(10) of the Act. Those Standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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- An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal financial control relevant to the Company's preparation of the financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of the accounting estimates made by Company's Directors, as well as evaluating the overall presentation of the financial statements.
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# Tax Audit Procedures

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- **Documentation (SA 230)-**
  - Keep detailed notes of evidences relied upon
  - Maintain all working papers including notes on following:
    - Work done while conducting audit, and by whom
    - Explanation and information given during course of audit, and by whom
    - Decision on various points taken and judicial pronouncements relied upon
    - MRLs / Certificates issued by client
  - Design audit programme as would reveal extent of checking and ensure adequate documentation
  - If you are also Statutory Auditor, advisable to carry out both audits concurrently

# Brief Introduction to SA's & other relevant

## standards

### ▪ **SA 700: FORMING AN OPINION AND REPORTING ON FINANCIAL STATEMENTS**

➤ This Standard on Auditing (SA) deals with the auditor's responsibility to form an opinion on the financial statements. It also deals with the form and content of the auditor's report issued as a result of an audit of financial statements.

### ▪ **SA 705: MODIFICATIONS TO THE OPINION IN THE INDEPENDENT AUDITOR'S REPORT**

➤ This Standard on Auditing (SA) deals with the auditor's responsibility to issue an appropriate report in circumstances when, in forming an opinion in accordance with SA 700 (Revised), the auditor concludes that a modification to the auditor's opinion on the financial statements is necessary.

### ▪ **SA 706: EMPHASIS OF MATTER PARAGRAPHS AND OTHER MATTER PARAGRAPHS IN THE INDEPENDENT AUDITOR'S REPORT**

➤ This Standard on Auditing (SA) deals with the auditor's responsibility to draw user's attention to important matters whether or not disclosed in the financial statements by making a specific reference in the auditor's report.

# Brief Introduction to SA's & other relevant standards

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## ▪ SA 710: COMPARATIVE INFORMATION— CORRESPONDING FIGURES AND COMPARATIVE FINANCIAL STATEMENTS

- Deals with the auditor's responsibilities regarding comparative information in an audit of financial statements.

## ▪ SA 720: THE AUDITOR'S RESPONSIBILITY IN RELATION TO OTHER INFORMATION IN DOCUMENTS CONTAINING AUDITED FINANCIAL STATEMENTS

- Deals with the auditor's responsibility in relation to other information in documents containing audited financial statements and the auditor's report thereon.

## ▪ SA 800: SPECIAL CONSIDERATIONS—AUDITS OF FINANCIAL STATEMENTS PREPARED IN ACCORDANCE WITH SPECIAL PURPOSE FRAMEWORKS

- Deals with special considerations in the application of SAs, in the series of 100-700, to an audit of financial statements prepared in accordance with a special purpose framework.

# Brief Introduction to SA's & other relevant

## standards

### ▪ SA 805: SPECIAL CONSIDERATIONS—AUDITS OF SINGLE FINANCIAL STATEMENTS AND SPECIFIC ELEMENTS, ACCOUNTS OR ITEMS OF A FINANCIAL STATEMENT

- Deals with special considerations in the application of SAs, in the series of 100-700, to an audit of a single financial statement or of a specific element, account or item of a financial statement.

### ▪ SA 810: ENGAGEMENTS TO REPORT ON SUMMARY FINANCIAL STATEMENTS

- Deals with the auditor's responsibilities when undertaking an engagement to report on summary financial statements derived from financial statements audited in accordance with SAs by that same auditor.

### ▪ SQC 1: QUALITY CONTROL FOR FIRMS THAT PERFORM AUDITS AND REVIEWS OF HISTORICAL FINANCIAL INFORMATION, AND OTHER ASSURANCE AND RELATED SERVICES ENGAGEMENTS

- The purpose of this Standard on Quality Control (SQC) is to establish standards and provide guidance regarding a firm's responsibilities for its system of quality control for audits and reviews of historical financial information, and for other assurance and related services engagements. This SQC is to be read in conjunction with the requirements of the Chartered Accountants Act, 1949, the Code of Ethics and other relevant pronouncements of the Institute.

# Brief Introduction to SA's & other relevant

## standards

### ▪ **SRE 2400: ENGAGEMENTS TO REVIEW FINANCIAL STATEMENTS**

➤ This Standard on Review Engagements (SRE) establishes standards and provides guidance on the practitioner's professional responsibilities when a practitioner, who is not the auditor of an entity, undertakes an engagement to review financial statements and on the form and content of the report that the practitioner issues in connection with such a review.

### ▪ **SRE 2410: REVIEW OF INTERIM FINANCIAL INFORMATION PERFORMED BY THE INDEPENDENT AUDITOR OF THE ENTITY**

➤ This Standard on Review Engagements (SRE) establishes standards and provides guidance on the auditor's professional responsibilities when the auditor undertakes an engagement to review interim financial information of an audit client, and on the form and content of the report.

# Brief Introduction to SA's & other relevant standards

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## ▪ **SAE 3400: THE EXAMINATION OF PROSPECTIVE FINANCIAL INFORMATION**

➤ This Standard on Assurance Engagement (SAE) establishes standards and provides guidance on engagements to examine and report on prospective financial information including examination procedures for best-estimate and hypothetical assumptions.

## ▪ **SRS 4400: ENGAGEMENTS TO PERFORM AGREED-UPON PROCEDURES REGARDING FINANCIAL INFORMATION**

➤ This Standard on Related Services (SRS) establishes standards and provides guidance on the auditor's professional responsibilities when an engagement to perform agreed-upon procedures regarding financial information is undertaken and on the form and content of the report that the auditor issues in connection with such an engagement.



# CONCEPT OF TURNOVER

- Whether to include excise, sales tax, service tax?
  - For proprietorships: total turnover for each business
  - Whether to include sale of capital assets?
  - Applicability for:
    - Construction contracts where turnover less than One Crore, but value of WIP is more than One Crore
    - Partners whose share of profit / remuneration / interest exceed Rs. One Crore

# CONCEPT OF TURNOVER ...

- When to apply limit of One Crore vs. 25 lakhs
  - Nursing home
  - Interior decorators
  - Management consultants
  - Coaching classes
  - Dealer in shares/securities
  - Gain on sale on investments
  - Insurance agents,
  - Financial Planning Advisors, etc.

# FORM 3CA, 3CB

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- When to use 3CA and 3CB?
- Giving comments in Para 3(a) of Form 3CB
  - Effect thereof?
  - Whether safeguards the auditor?
- Adding responsibility and scope Para in 3CB
  - Results in amending Form 3CB
  - Whether justifiable?

# Form 3CA, 3CB ...

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- Notes to Accounts to normally specify:
  - Method of accounting followed – accrual or cash
  - Method of inventory valuation
  - Fixed Assets and Depreciation
  - Investments
  - Method for accounting Foreign Exchange fluctuations
- Items that may require qualification:
  - Mandatory AS not followed (esp. for Companies)
  - Non provision of Income Tax
  - Employee benefits – especially retirement benefits
  - Confirmations for balances
  - Inventory valuation on estimated basis

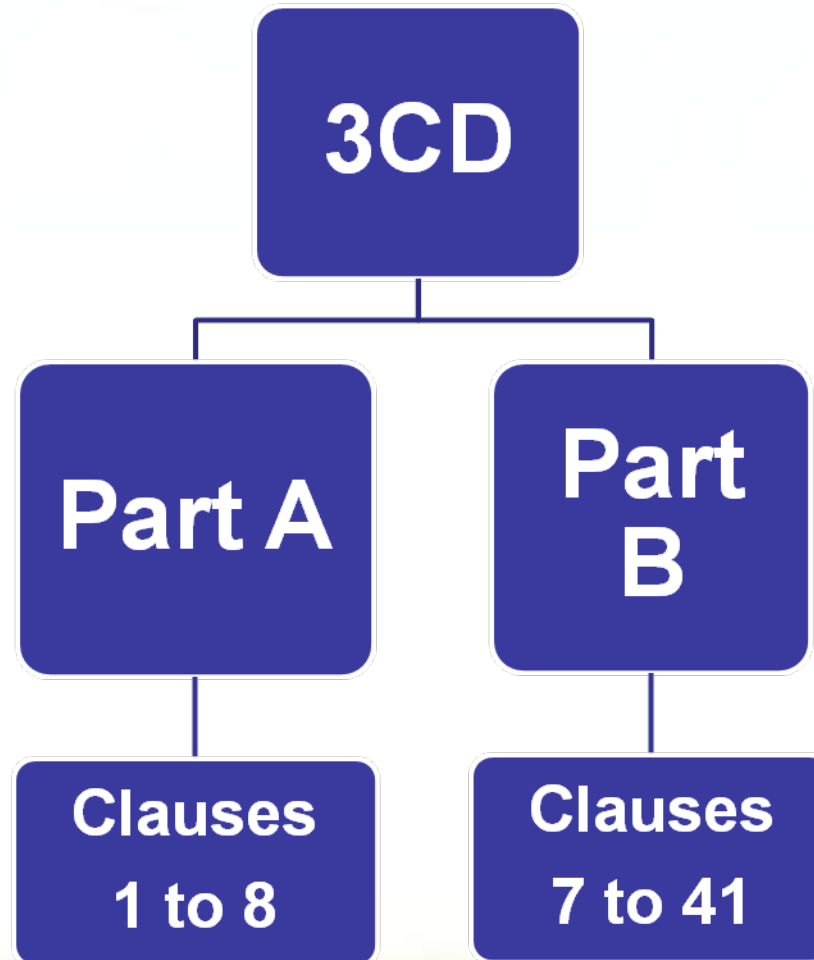
# Form 3CD

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- Form 3CD – revised effective 25<sup>th</sup> July 2014
- For a proprietor having 2-3 different business – whether same or different Form 3CD?
- Primary responsibility of management
- To be certified by management
- Contains Parts A/B - **Two Annexure Removed**

# Form 3CD

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# Form 3CD – comments

• No interest charged on loans to relatives  
**necessary in following?**

- Insufficient household withdrawals
- Books not closed
- Investments, assets (like car, flat) held in names of partners and not name of firm
- No quantity records are maintained
- Stocks not tallying with bank

# Documentation

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- Register for Tax Audits carried out during the year
- Documentation for 3CD should be separate
- Check list for 3CD, if possible
- Separate MRL (esp for debatable issues), preferable
- Important for Peer Review since tax audit is also an attest function.



# General Principles

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- Judicial pronouncements while taking any particular view
- In the event of conflict of judicial opinion on any particular issue, refer to the view followed while giving the particulars under any specified clause.
- Follow AS / SA / GN

# Specific Principles

- Particular income/expenditure covered in more than one of the specified clauses - make a suitable cross reference
- Difference in the opinion of the tax auditor and that of Assessee state both the view points
- If any particular clause in Form No. 3CD is not applicable, state it is not applicable.

# Specific Principles

- For allowance or disallowance, follow the law applicable in the relevant year, even though the form of audit report may not have been amended – Rules cannot override Act
- Insufficient information, qualify rather than withhold the entire audit report.
- Source of Information for Form No. 3CD – Books of account, records, documents, information and explanations made available

# Specific Principles

- Avoid using Notes on Accounts for remarks
- Preserve working papers
- Obtain Representation Letters (MRL)..... and engagement letter as well (AAS-26 – now SA-210)

# Specific Principles

- Understand the terms “Sales”, “turnover”, and “Gross receipts”
- Understand the terms “Business” and “Profession”
- Understand the Rights, Responsibilities, and Limitations of Auditors

# **Specific Principles vis-à-vis AAS-28 – New SA - 700-799 Audit Conclusions and Reporting**

- Identification of the financial statements audited together with date and period covered
- Statement as to responsibility of the management and the Auditor
- Performance of audit in accordance with Auditing Standards generally accepted in India

# **New SA - 700-799 Audit Conclusions and Reporting**

- Description of work performed by Auditor – test nature – reasonable assurance as to absence of material misstatement
- Assessing the accounting estimates
- Evaluating overall financial presentation
- Audit provides reasonable basis for his opinion

# Specific Principles – Cash System

- “It is the policy of the Assessee to prepare his financial statements on the cash receipts and disbursements basis. On this basis, revenue and the related assets are recognized when received rather than when earned, and expenses are recognized when paid rather than when the obligation is incurred. In our opinion.....”



# General Particulars

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1. Name of the Assessee: \_\_\_\_\_....
2. Address: \_\_\_\_\_....
3. Permanent Account Number: \_\_\_\_\_
4. Indirect Tax Registration Numbers: (Consideration of Laws–SA 250)
5. Status: \_\_\_\_\_
6. Previous year ended: From \_\_\_\_ To \_\_\_\_
7. Assessment year: \_\_\_\_\_
8. Indicate the relevant clause of section 44AB under which audit done

# Name

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- Form 3CD - Name of the Assessee whose accounts are being audited; e.g. Ms. Rakhi Sawant, Proprietress, Mica Kisschandani & Co.
- Form 3CB – “We have examined the balance sheet as at 31st March \_\_\_\_, and the profit and loss account for the year ended on that date, attached herewith, of.....” Mica Kisschandani & Co., Proprietress, Ms. Rakhi Sawant,

# Address

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- Communicated by the Assessee to the Income-tax Department for assessment purposes
- If Assessed at home address....give office address also.....May protect in Survey action under section 133A

# Indirect Taxes Numbers

- Excise
  - Service Tax
  - Sales Tax
  - Customs Duty
  - Profession Tax?
-

# Relevant Clause of 44AB

- (a) Business
  - (b) Profession
  - (c) Presumptive – 44AE, 44BB, 44BBB
  - (d) Presumptive – 44AD
    - Individual  $<$  Threshold
    - Firm under Loss
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## [Clause 9(a) and (b)]

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(a) If firm or Association of Persons, indicate names of partners/members and their profit sharing ratios.

- Profit Ratio vis-à-vis Remuneration Ratio

(b) If there is any change in the partners or members or in their profit sharing ratio since the last date of the preceding year, the particulars of such change

## **[Clause 9(a) and (b)]**

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- whether relevant documents, if required, have been filed with the concerned authorities,
- whether notice of changes, if required, has been given to the registrar of firms, and
- any minutes or any other understanding recording any changes in the partners/members or their profit sharing ratios.

# Anything else?

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- obtain certified copies of the deeds, documents, understanding, notice of changes, etc. including certified copies of the acknowledgment, if any, evidencing filing of documents.



# [Clause 10 (a) and (b)]

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(a) Nature of business or profession.

- Principal line of business

- In practice, activities that constitute  $> 10\%$  are given

- (a) Nature of business or profession (if more than one business or profession is carried on during the previous year, nature of every business or profession)

(b) If there is any change in the nature of business or profession, the particulars of such change.

- Any material change – discontinuation...

# Anything else?

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- A review of business report or the minutes of meetings
- Change permanent or temporary?

## [Clause 11 (a) to (c)]

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- (a) Whether books of account are prescribed under section 44AA, if yes, list of books so prescribed.
- (b) Books of account maintained **and address**.  
(In case books of account are maintained in a computer system, mention the books of account generated by such computer system.)
- (c) List of books of account examined **and nature of relevant documents examined**

# [Clause 11 (a) to (c)]

- Business vis-à-vis Profession – Rule 6F

1. Cash book.

2. Journal,

3. Ledger.

medical profession

- a) daily case register in Form No.3C

- b) an inventory under broad heads, as on the first and the last days of the previous year,

# [Clause 11 (a) to (c)]

- ...else, no books of account have been prescribed

(b) Books of account maintained

- Primary vis-à-vis secondary (Para 20.8 of GN)
- Stock Register? – Section 209 of the Companies Act 1956

## [Clause 12]

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- Whether the profit and loss account includes any profits and gains assessable on presumptive basis, if yes, indicate the amount and the relevant sections (44 AD, 44AE, 44AF, 44B, 44BB, 44BBA, 44BBB, **Chapter XII-G, First Schedule** or any other relevant section).

## [Clause 12]

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1. 44AD - Other business (except professional and Commission Agents)

- 8% of Gross Receipts – Max. RS. One Crore

2. 44AE Transport business

- Specific Amount / vehicle / month – No Turnover Limit

## [Clause 12]

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- Amount included in the profit and loss account
- Clarify that the amount mentioned under this clause is not necessarily the actual amount of profits and gains chargeable to tax



# [Clause 12]

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- Three situations – para 21.3 of GN
  1. Common Accounts – Normal and Presumptive Business – problem of apportionment of expenses
  2. Separate Accounts
  3. No books for Presumptive Business – Qualify the Report

## [Clause 13 (a) to (d)]

(a) Method of accounting employed in the previous year.

(b) Whether there has been any change in the method of accounting employed vis-a-vis the method employed in the immediately preceding previous year.

(c) If answer to (b) above is in the affirmative, give details of such change, and the effect thereof on the profit or loss.

Serial No.	Particulars.	Increase in Profit (Rs.)	Decrease in Profit (Rs.)

(d) Details of deviation, if any, in the method of accounting employed in the previous year from accounting standards prescribed under section 145 and the effect thereof on the profit or loss.

# **[Clause 13 (a) to (d)]**

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- **Cash vis-à-vis Mercantile system**
  - Allowability of remuneration in case of professional firm following Cash basis
  - Cash basis not possible for companies
- **Change in Method of Accounting vis-à-vis Change in Accounting Policy**
- **First year of Audit – state the fact against (b)**

# [Clause 13 (a) to (d)]

- Quantify the effect on Financial Results owing to the change in method of accounting...or give disclaimer
- No method of Accounting prescribed in AS prescribed under section 145

# Clause 14 (a) and (b)

- Method of valuation of closing stock employed in the previous year.
- Details of deviation, if any, from the method of valuation prescribed under section 145A, and the effect thereof on the profit or loss.

Serial No.	Particulars.	Increase in Profit (Rs.)	Decrease in Profit (Rs.)

# Clause 14 (a) and (b)

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- Closing stock consists of RM, WIP, FG, Stores, etc.
- Normal valuation principles to be followed:
  - At cost or NRV whichever is lower;
  - To follow Absorption Costing;
  - To include all costs incl. excise duty (sec 145A)
  - To mention how cost is determined
  - If cost arrived at as SP less GP margin – whether ok?
  - Allowed at SP in certain cases
  - SC decision of British Paints (188 ITR 44)
- To also value stores, packing items
- Change in method of valuation covered in Clause 13

# Clause 14 (a) and (b)

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- To mention effect of 145A on
  - Any tax, duty, cess ,etc. paid/incurred on inputs to be added to the cost of the inputs, if not already added;
  - Any tax, duty, cess ,etc. paid/incurred on sale of goods to be added in sales, if not already added;
  - Any tax, duty, cess ,etc. paid/incurred on inventory to be added to inventory valuation, if not already added;
- Section 145A - “Inclusive method” as against “Exclusive method” - AS 2
- ICAI GN on “Tax Audit u/s. 44AB” mentions (with an illustration) that in both methods, impact on profit/loss is Nil

# Clause 15

- Give the following particulars of the capital asset converted into stock-in-trade: -
  - (a) Description of capital asset,
  - (b) Date of acquisition;
  - (c) Cost of acquisition;
  - (d) Amount at which the asset is converted into stock-in-trade.
- Reporting is only for assets converted into stock-in-trade in the previous year –  
Taxability of the gains from such transfer not to be disclosed



## **[Clause 16 (a) to (e)]**

Amounts **not credited** to the profit and loss account, being,-

- (a) the items falling within the scope of section 28;
- (b) the pro forma credits, drawbacks, refunds of duty of customs or excise, or refunds of sales tax, where such credits, drawbacks or refunds are admitted as due by the authorities concerned;

- refund of duty of customs or excise or service tax, or refund of sales tax or value added tax

## **[Clause 16 (a) to (e)]**

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(c) escalation claims accepted during the previous year;

(d) any other item of income;

(e) capital receipt, if any.

- Accrued but not due; e.g. export incentives
- VAT Refund
- Claims made vis-à-vis claims admitted
- Set-off on m/c. reduced from m/c. a/c.

## [Clause 16 (a) to (e)]

- Other items credited directly to Capital A/c. of the proprietor; e.g. interest on PPF
- Capital Receipts.....Gift received by the proprietor.....Shares forfeited
- Government subsidy on capital a/c. / against fixed assets / profit on sale of fixed assets (Consideration credited to the relevant Asset A/c.)

# Clause 17

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- Where any land or building or both is transferred during the previous year for a consideration less than value adopted or assessed or assessable by any authority of a State Government referred to in Section 43CA or 50C, Please furnish :

Details of Property	Consideration received accrued	Value adopted or assessed or assessable

# Clause 18

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- Particulars of depreciation allowable as per the Income-tax Act 1961 in respect of each asset or block of assets, as the case may be, in the following form:
  - (a) Description of asset/block of assets.
  - (b) Rate of depreciation.
  - (c) Actual cost or written down value, as the case may be.

# Clause 18

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- (d) Additions/deductions during the year with dates; in the case of any addition of an asset, date put to use; including adjustments on account of -
- (i) Modified Value Added Tax credit claimed and allowed under the Central Excise Rules, 1944, in respect of assets acquired on or after 1st March, 1994,

# Clause 18

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(ii) change in rate of exchange of currency, and

(iii) subsidy or grant or reimbursement, by whatever name called.

(e) Depreciation allowable.

(f) Written down value at the end of the year.

# Clause 18

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- Date when Asset put to use – can differ with date of start of commercial production
- Capital assets claimed as deduction
  - R & D assets (also refer clause 15)
  - Assets less than Rs. 5,000
- Computer Software: whether asset? (Decision of Amway)
- Adjustments for currency fluctuations (as per sec 43A)
- Adjustments for subsidies received (as per expl 10 to sec 43)
- In case of disputes (which are under litigation) regarding depreciation claim in earlier years – to clearly mention the same



## [ Clause 19 ]

- Amounts admissible under section 33AB, 33ABA, 33AC, 35, 35ABB, 35AC, 35CCA, 35CCB, 35D, **35DD, 35DDA, 35E**
- **Vertically.....**
  - (a) debited to the profit & loss account (showing the amount debited and deduction allowable under each section separately);
  - (b) **not debited to the profit and loss account.**
- Amount admissible as per the provisions of the Income Tax Act 1961 and also fulfills the conditions, if any specified under the conditions, if any specified under the relevant provisions of the Act or Rules or any other **guidelines, circular etc., issued in this behalf.**

AS - 26

# [Clause 19]

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- If a separate audit report obtained for claiming deductions under any of these sections, make a reference to that report
- As 26 does not now permit any expenditure to be classified as Deferred Revenue Expenditure
- Amount debited vis-à-vis amount admissible – Capital expenditure
- Largely important 35AC and 35D

## **[Clause 20 (a) and (b)]**

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- (a) Any sum paid to an employee as bonus or commission for services rendered, where such sum was otherwise payable to him as profits or dividend. [Section 36(1)(ii)].
  
- (b) Any sum received from employees towards contributions to any provident fund or superannuation fund or any other fund mentioned in section 2(24)(x); and due date for payment and the actual date of payment to the concerned authorities under section 36(1)(va).

# [Clause 20 (a) and (b)]

Month	Employees'	Due Date	Actual	Employees'	Due Date	Actual
	Contribution to	of	date of	Contribution to	of	date of
	ESIC	payment	payment	to PF	payment	payment
April	395	21.05.04	20.05.2004	395	20.05.04	20.05.2004
May	395	21.06.04	17.06.2004	395	20.06.04	17.06.2004
June	395	21.07.04	28.07.2004	395	20.07.04	28.07.2004
July	395	21.08.04	25.08.2004	395	20.08.04	25.08.2004
August	395	21.09.04	20.09.2004	395	20.09.04	20.09.2004
September	395	21.10.04	10.10.2004	395	20.10.04	10.10.2004
October	395	21.11.04	25.11.2004	395	20.11.04	25.11.2004
November	395	21.12.04	18.12.2004	395	20.12.04	18.12.2004
December	349	21.01.05	19.01.2005	349	20.01.05	19.01.2005
January	349	21.02.05	17.02.2005	349	20.02.05	17.02.2005
February	349	21.03.05	19.03.2005	349	20.03.05	19.03.2005
March	349	21.04.05	20.04.2005	349	20.04.05	20.04.2005

# [Clause 20 (a) and (b)]

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- 43B vis-à-vis 36 (1) (va) – Employer’s Contn. Vis-à-vis Employees’ Contn.
- 43B – deduction allowed if paid by the due date of filing Return
- 36 (1) (va) – just forget it if paid after the due date - Excide Industries
- CIT V. KICHHA SUGAR CO. LTD [2013] 35 taxmann.com 54
- Nipso Polyfabriks Ltd. 2013] 30 taxmann.com 90 (Himachal Pradesh)
- **Pik Pen Pvt Ltd vs. ITO (ITAT Mumbai) / 6847 / Mum / 2008**
- **LKP Securities Ltd. v. ITO (Mumbai ITAT) - X**

# **Amounts debited to the profit and loss account, Clause 21 (a) to (i)**

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Expenditure of capital nature;

- Loss on sale of Asset / investment / stamp duty on FA
- ROC Regn. Fees.....

Expenditure of personal nature;

- Contractual obligations

Expenditure on advertisement in any souvenir, brochure, tract, pamphlet or the like, published by a political party;

- 37 (2B) vis-à-vis 80GGB

# **Amounts debited to the profit and loss account, Clause 21 (a) to (i)**

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Expenditure incurred at clubs,—

(i) as entrance fees and subscription;

(ii) as cost for club services and facilities used;

Expenditure by way of penalty or fine for violation of any law for the time being in force;

- Materiality

# Amounts debited to the profit and loss account, Clause 21 (a) to (i)

Any other penalty or fine;

- Interest described as penalty / commercial penalties

Expenditure incurred for any purpose which is an offence or which is prohibited by law;

Protection Money

(f) amounts inadmissible under section 40(a) / 40 (a) (ia);

(A) Details of Payment on which tax is not deducted:

Date of Payment	Amount of Payment	Nature of payment	Name and Address of the Payee
(i)	(ii)	(iii)	(iv)



(B) Details of payment on which tax has been deducted but has not been paid during the previous year or in the subsequent year before the expiry of time prescribed under section 200(1) :

Date of Payment	Amount of Payment	Nature of payment	Name and Address of the Payee	Amount of Tax deducted
(i)	(ii)	(iii)	(iv)	(v)

(B) Details of payment on which tax has been deducted but has not been paid on or before the due date specified in sub-section (1) of section 139.

Date of Payment	Amount of Payment	Nature of payment	Name and Address of the Payee	Amount of Tax deducted	Amount out of (v) deposited, of any
(i)	(ii)	(iii)	(iv)	(v)	(vi)

# 40 (a)

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- 40 (a) (i) and 40 (a) (ia)
- Payments subject to deduction of tax at source
  - All Payments including salaries
- Foreign payments – interest, royalty, fees for technical services, or other sum chargeable under section 195

# Amounts debited to the profit and loss account, Clause 21 (a) to (i)

(c) interest, salary, bonus, commission or remuneration inadmissible under section 40(b)/40(ba) and computation thereof;

(d) Disallowance/deemed income under section 40A(3) / (3A)

Serial No.	Date of Payment	Nature of payment	Amount	Name and PAN of the Payee, if available
(i)	(ii)	(iii)	(iv)	(v)

## **Amounts debited to the profit and loss account, Clause 21 (a) to (i)**

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- (e) provision for payment of gratuity not allowable under section 40A(7);
- (f) any sum paid by the assessee as an employer not allowable under section 40A(9);
- (g) particulars of any liability of a contingent nature;
- (h) amount of deduction inadmissible in terms of section 14A in respect of the expenditure incurred in relation to income which does not form part of the total income,
- (i) amount inadmissible under the proviso to section 36(1)(iii) –

# Clause 22

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- Amount of interest inadmissible under section 23 of the Micro, Small and Medium Enterprises Development Act, 2006
- Amount of interest
- inadmissible
- under section 23 of
- the Micro, Small and Medium Enterprises Development Act, 2006

## [Clause 23]

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- Particulars of payments made to persons specified under section 40A(2)(b)
- Define relationships of the related parties
- MRL
- Clause 24 33ABA / 33AC.....option**

## [Clause 25]

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- Any amount of profit chargeable to tax under section 41 and computation thereof
- If allowance or deduction is obtained for a liability that ceases or for an asset that is recovered in subsequent year
- Loan taken not repayable.....?

# Clause 26

- (i) In respect of any sum referred to in clause (a), (b), (c), (d), (e), or (f) of section 43B, the liability for which:-
- (A) pre-existed on the first day of the previous year but was not allowed in the assessment of any preceding previous year and was
    - (a) paid during the previous year;
    - (b) not paid during the previous year;
  - (B) was incurred in the previous year and was
    - (a) paid on or before the due date for furnishing the return of income of the previous year under section 139(1);
    - (b) not paid on or before the aforesaid date.



# Clause 26

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- To understand the latest provision of sec 43B
  - Disallowance for the following if not paid within the year or before the due date of filing return:
    - Any tax, duty, cess, fee, etc.;
    - Employers' contribution to Provident Fund or other funds;
    - Bonus of commission payable to employees;
    - Interest on loan from financial institutions or scheduled banks;
    - Leave encashment – Excise Inds.
  - Separate disclosure for amounts o/s. at the beginning of the year and for arising during the year – Clause 26(i)(A) / (B).
  - To also state whether amount of Sales Tax, excise, etc passed through the Profit and Loss a/c
-

## [Clause 27 (a) and (b)]

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- (a) Amount of Modified Value Added Tax credits availed of or utilized during the previous year and its treatment in the profit and loss account and treatment of outstanding Modified Value Added Tax credits in the accounts.
- (b) Particulars of income or expenditure of prior period credited or debited to the profit and loss account. – **No connection with prior period items as envisaged by AS 5**

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Opening Balance

CENVAT	4,024	
Ed. Cess	<u>74</u>	4,098

Add : Modvat Credit Availed during the year

CENVAT	2,252,026	
Ed. Cess	<u>44,962</u>	2,296,988

Less : Modvat Credit utilised during the year

CENVAT	2,242,781	
Ed. Cess	<u>44,774</u>	2,287,555

Balance outstanding at the end of the year

CENVAT	13,269	
Ed. Cess	<u>262</u>	

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13,531

# Clause 28

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- Whether during the previous year the assessee has received any property, being share of a company **not** being a company in which the public are substantially interested, without consideration or for inadequate consideration as referred to in section 56(2)(viia). If yes, please furnish the details for the same
- Rule 11UA

# Clause 29

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- Whether during the previous year the assessee received any consideration for issue of shares which exceeds the fair market value of the shares as referred to in section 56(2) (viib). If yes, please furnish the details of the same
  - Closely held company – Share Premium
  - Valuation Method
-

# 30 and 31

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- Details of any amount borrowed on hundi or any amount due thereon (including interest on the amount borrowed) repaid, otherwise than through an account payee cheque. [Section 69D]. [Clause 30]
- Particulars of each loan or deposit in an amount exceeding the limit specified in section 269SS taken or accepted and repaid exceeding the limit specified in section 269T during the previous year [Clause 31 (a) and (b)].....

# Clause 31

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- Acceptance / Repayment through Account Payee Cheque.....
- *“It is not possible for me/us to verify whether loans or deposits have been taken or accepted otherwise than by an account payee cheque or account payee bank draft, as the necessary evidence is not in the possession of the assessee.”*
- All loans vis-à-vis loans covered by section 269SS and 269T

# Clause 31

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- (c) Whether a certificate has been obtained from the assessee regarding taking or accepting loan or deposit, or repayment of the same through an account payee cheque or an account payee bank draft. [Yes/No]
- The particulars (i) to (iv) at (b) above need not be given in the case of a repayment of any loan or deposit taken or accepted from Government, Government company, banking company or a corporation established by a Central, State or Provincial Act



## [Clause 32]

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Details of brought forward loss or depreciation allowance, in the following manner, to the extent available:

- Serial Number
- Assessment Year
- Nature of loss / allowance (in rupees)
- Amount as returned (in rupees)
- Amount as assessed (give reference to relevant order)
- Remarks

## [Clause 32]

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- (b) whether a change in shareholding of the company has taken place in the previous year due to which the losses incurred prior to the previous year cannot be allowed to be carried forward in terms of section 79.
- (c) Whether the assessee has incurred any speculation loss referred to in section 73 during the previous year, If yes, please furnish the details of the same.

# [Clause 32]

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- (d) whether the assessee has incurred any loss referred to in section 73A in respect of any specified business during the previous year, if yes, please furnish details of the same.
  - (e) In case of a company, please state that whether the company is deemed to be carrying on a speculation business as referred in explanation to section 73, if yes, please furnish the details of speculation loss if any incurred during the previous year.
-

# Anything else?

- A review of earlier years' returns – whether filed in time
- A review of relevant Assessment Orders
- A review of Annual Return of ROC

## [Clause 33]

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- Section-wise details of deductions, if any, admissible under Chapter VIA
- What if separate audit / certification required to claim deduction?
- Payments made from personal A/c. of the Assessee (proprietor) – Qua Assessee or Qua Business?

# [Clause 34 (a) to (c)]

- Whether the assessee is required to deduct or collect tax as per the provisions of Chapter XVII-B or Chapter XVII-BB. If Yes, please furnish:

TAN	Sec.	Nature of Payment	Total amount of Payment or Receipt of the nature specified in Col. 3	Total amount on which tax was required to be deducted or collected out of (4)	Total amount on which tax was deducted or collected at specified rate out of (5)	Amount of tax ded. Or coll. Out of (6)	Total amount on which tax was deducted or collected at less than specified rate out of (7)	Amount of tax deducted or collected on (8)	Amount of tax deducted or collected not deposited to the credit of the Central Government out of (6) and (8).
08/08/16 13:31 (1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)	102 (10)

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(b) Whether the assessee has furnished the statement of tax deducted and collected within the prescribed time. **If not**, Please furnish the details :

TAN	Type of Form	Due Date for furnishing	Date of Furnishing, if furnished.	Whether the statement of Tax deducted or collected contains information about all transactions which are required to be reported.
(1)	(2)	(3)	(4)	(5)

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(c) whether the assessee is liable to pay interest under section 201(1A) or section 206C(7). If Yes, please furnish :

TAN	Amount of Interest Payable	Amount paid out of Col. (2)	Date of Payment
(1)	(2)	(3)	(4)

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## **[Clause 35 (a) and (b)]**

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- (a) In the case of a trading concern, give quantitative details of the principal items of goods traded :
- (i) Opening stock;
  - (ii) Purchases during the previous year;
  - (iii) Sales during the previous year;
  - (iv) Closing stock;
  - (v) shortage/excess, if any.

## **[Clause 35 (a) and (b)]**

(b) In the case of a manufacturing concern, give quantitative details of the principal items of raw materials, finished

products and by-products :

A. Raw materials:

- (i) opening stock;
- (ii) purchases during the previous year;
- (iii) consumption during the previous year;
- (iv) sales during the previous year;
- (v) closing stock;
- (vi)\* yield of finished products;
- (vii)\* percentage of yield;
- (viii)\* shortage/excess, if any.

# **[Clause 35 (a) and (b)]**

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## B. Finished products/By-products:

- (i) opening stock;
- (ii) purchases during the previous year;
- (iii) quantity manufactured during the previous year;
- (iv) sales during the previous year;
- (v) closing stock;
- (vi) shortage/excess, if any.

\* Information may be given to the extent available.

## [Clause 36]

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In the case of a domestic company, details of tax on distributed profits under section 115-O in the following form:

- (a) total amount of distributed profits;
- (b) amount of reduction as referred to in section 115-O(1A)(i)
- (c) amount of reduction as referred to in section 115-O(1A)(ii)
- (d) total tax paid thereon;
- (e) dates of payment with amounts.

## **[Clause 37]**

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## **and [Clause 38]**

- Whether any cost audit was carried out, if yes, enclose a copy of the report of such audit [See section 139(9)].
- What if cost audit applicable but not done?
- Whether any audit was conducted under the Central Excise Act, 1944, if yes, enclose a copy of the report of such audit.

# [Clause 39]

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- Whether any audit was conducted under section 72A of the Finance Act 1994 in relation to valuation of taxable services. If Yes, give the details, if any, of the disqualification or disagreement on any matter/ item/ value/ quantity as may be reported/identified by the auditor :

# [Clause 40]

Accounting ratios with calculations as follows:

- (a) Gross profit /Turnover;
- (b) Net profit/Turnover; (NPAT)
- (c) Stock-in-trade /Turnover;
- (d) Material consumed /Finished goods produced.

# [Clause 40]

The value of finished goods formula :

- (a) Raw material consumption -
  - (b) Stores and spare parts consumption -
  - (c) Wages -
  - (d) Other manufacturing expenses -  
excluding depreciation.
- Sub total -
- Add : Opening stock in process -
- Deduct : Closing stocks in process -



# [Clause 41]

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- Please furnish the details of demand raised or refund issued during the previous year under any tax laws other than Income tax Act, 1961 and Wealth tax Act, 1957 along with details of relevant proceedings: